

Department of Social and Health Services

DP Code/Title: M2-TF HIPAA Revised APD WA2003-04

Program Level - 080 Medical Assistance

Budget Period: 2003-05 Version: H2 080 2003-05 2004 Sup-Agency Req

Recommendation Summary Text:

This decision package requests a redistribution of the current 2003-05 Biennium appropriation for implementation of Rule 1 of the Health Insurance Portability and Accountability Act (HIPAA). Reappropriation of unspent Fiscal Year 2003 federal HIPAA Rule 1 implementation funding, and an adjustment to Fiscal Year 2005 state funding to meet federal matching requirements for project expenditures. Statewide result number 5.

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
001-1 General Fund - Basic Account-State	476,000	(170,000)	306,000
001-C General Fund - Basic Account-DSHS Medicaid Federa	4,512,000	(4,201,000)	311,000
Total Cost	4,988,000	(4,371,000)	617,000

Staffing

Package Description:

HIPAA was signed into law August 1996. This reform covers health care fraud and abuse prevention, medical liability reform, and administrative simplifications. That part of HIPAA referred to as Administrative Simplification is being implemented in three rules. This package requests a redistribution of 2003-05 funding currently budgeted for compliance with Rule 1, standard electronic transactions and code sets, by the implementation date of October 16, 2003.

Under Rule 1, all health care organizations (health plans, health care providers, and health care clearing houses) must standardize electronic transactions between organizations. Under this rule, the Department of Social and Health Services (DSHS) functions as both a health plan and a health care provider (Western State Hospital, Eastern State Hospital, and Child Study and Treatment Center).

The transactions named in this rule affect health care eligibility inquiry, enrollment, referrals, claims, payments, remittance advice, and claim status inquiry activities. DSHS performs all of these transactions in the day-to-day business. After October 16, 2003, all electronic transactions covered by the rule must be conducted using new standardized formats and code sets. These code sets will be regularly updated.

The intent of this rule is to increase the efficiency of processing health care financial transactions. All health care organizations, both public and private sector, are required to comply.

Narrative Justification and Impact Statement

How contributes to strategic plan:

This decision package meets the agency balanced scorecard goal of integrating and coordinating information systems.

Performance Measure Detail

Program: 080

Goal: 14H Strengthen Information and Fiscal Monitoring Systems

No measures submitted for package

Incremental Changes

FY 1

FY 2

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Goal: 15H Enhance Abilities to be an Effective Purchaser of Health Services

No measures submitted for package

Incremental Changes

FY 1

FY 2

Goal: 16H Enhance Capabilities to Accurately Determine Client Eligibility

No measures submitted for package

Incremental Changes

FY 1

FY 2

Reason for change:

Compliance with HIPAA Rule 1 is a federal mandate. The inability to comply will create substantial barriers in conducting the day-to-day business functions with medical providers statewide.

Impact on clients and services:

The impact of change on clients and services is significant:

- 1) Over 920,000 Washington residents rely on state and federal medical assistance programs administered by DSHS.
- 2) Over 45,000 medical providers serve DSHS clients.
- 3) Over 46 million medical claims are processed each biennium by DSHS.
- 4) DSHS spends over \$6 billion dollars per biennium on medical services.

The department must be able to accept and process HIPAA compliant electronic transactions by October 16, 2003. Failure to do so could interrupt the delivery of medical services to clients throughout Washington.

Impact on other state programs:

This HIPAA rule will affect all administrations across the department. Likewise, many health care organizations that interface with these organizations (such as the Regional Support Networks, Local Health Districts, County Health Departments, Indian Tribes, Area Agencies on Aging, and similar organizations) will be affected also.

The affected organizations must alter their business models, operational procedures, and information systems to operate in a synchronized HIPAA compliant fashion, wherever standard electronic transactions occur.

Relationship to capital budget:

Not applicable

Required changes to existing RCW, WAC, contract, or plan:

No changes to the Revised Code of Washington were required to implement HIPAA. Four Washington Administrative Codes (WACs) required changes because they contained references to pricing codes, which were standardized as required by HIPAA.

All contracts had to be reviewed and amended as necessary to ensure compliance with the HIPAA Privacy Rule. This work has already been accomplished and no further work is anticipated in this area due to HIPAA Rule 1.

Alternatives explored by agency:

DSHS is taking a minimalist approach to HIPAA compliance using an enterprise model. That means making as few changes as possible in both our information systems and business models to achieve HIPAA compliance across the enterprise.

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Current information systems will be modified (in lieu of replacement) to leverage limited resources, control scope, and manage risk. The development of new applications will occur on a very limited basis. Whenever possible, DSHS intends to use existing state resources and secure contractors only if capacity or expertise is not available. The department is focused on limiting risk from a technology standpoint by using technology, hardware, tools, and approaches that are proven at the industry level. Given the constraints of the budget, this is the only viable approach for the department.

Budget impacts in future biennia:

HIPAA will impact current and future biennial expenditures for DSHS. Routine changes to this federal rule are anticipated. Initial and ongoing compliance will require changes in both DSHS business practices and information systems. The frequency and extent to which changes occur at the federal level will impact costs in future biennia.

The department is currently exploring a strategy to secure federal financial participation for the operation of systems that interface with or are related to the Medicaid Management Information System (MMIS), Washington State's designated Medicaid claims processing system. If the department is successful, more federal funding could be secured and less state funds would be needed. Otherwise, state funds will be the only source of revenue to secure initial and long-term HIPAA compliance outside the Medical Assistance Administration, which has responsibility for operation of the MMIS.

Distinction between one-time and ongoing costs:

One-time costs include expenses associated with significant changes to business processes and information systems to realign with HIPAA requirements and achieve compliance by the federal deadline. Ongoing costs include recurring expenditures associated with continued compliance after the federal deadline.

Effects of non-funding:

If funding is not provided, the department may be incapable of meeting its obligation as a health plan, including timely payment to health care providers. If providers are not paid in a timely fashion, over 920,000 clients statewide may not receive timely medical services. Thousands of businesses across the state would be impacted since DSHS spends over \$6 billion dollars per biennium on medical services. Failure to comply jeopardizes Medicaid funding and potentially carries financial sanctions on a per-transaction basis.

Expenditure Calculations and Assumptions:

This request would redistribute existing HIPAA Rule 1 implementation funding as follows:

- Increase Fiscal Year 2004 GF-F by \$2,260,000 and \$226,000 GF-S by reappropriating unspent Fiscal Year 2003 GF-F HIPAA funding together with needed matching funds.
- Reduce Fiscal Year 2005 federal funding by \$1,869,000 for operating expenditures not anticipated until the 2005-07 Biennium;
- Transfer \$250,000 GF-S and \$2,252,000 GF-F from Fiscal Year 2005 to Fiscal Year 2004 for contract expenditures to be incurred in Fiscal Year 2004;
- Increase GF-S funding by \$80,000 and reduce GF-F an equal amount in Fiscal Year 2005 to reflect a federal match rate of 75 percent available for operating expenditures, and;

See attachment - MAA TF HIPAA Revised APD WA 2003-04.xls

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<u>Object Detail</u>		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding				
A	Salaries And Wages	160,000	0	160,000
B	Employee Benefits	40,000	0	40,000
C	Personal Service Contracts	15,000	0	15,000
E	Goods And Services	4,773,000	(4,371,000)	402,000
Total Objects		4,988,000	(4,371,000)	617,000

DSHS Source Code Detail

Overall Funding		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State				
<u>Sources</u>	<u>Title</u>			
0011	General Fund State	476,000	(170,000)	306,000
<i>Total for Fund 001-1</i>		476,000	(170,000)	306,000
Fund 001-C, General Fund - Basic Account-DSHS Medicaid Federa				
<u>Sources</u>	<u>Title</u>			
19UG	Title XIX Admin (75%)	4,512,000	(4,201,000)	311,000
<i>Total for Fund 001-C</i>		4,512,000	(4,201,000)	311,000
Total Overall Funding		4,988,000	(4,371,000)	617,000